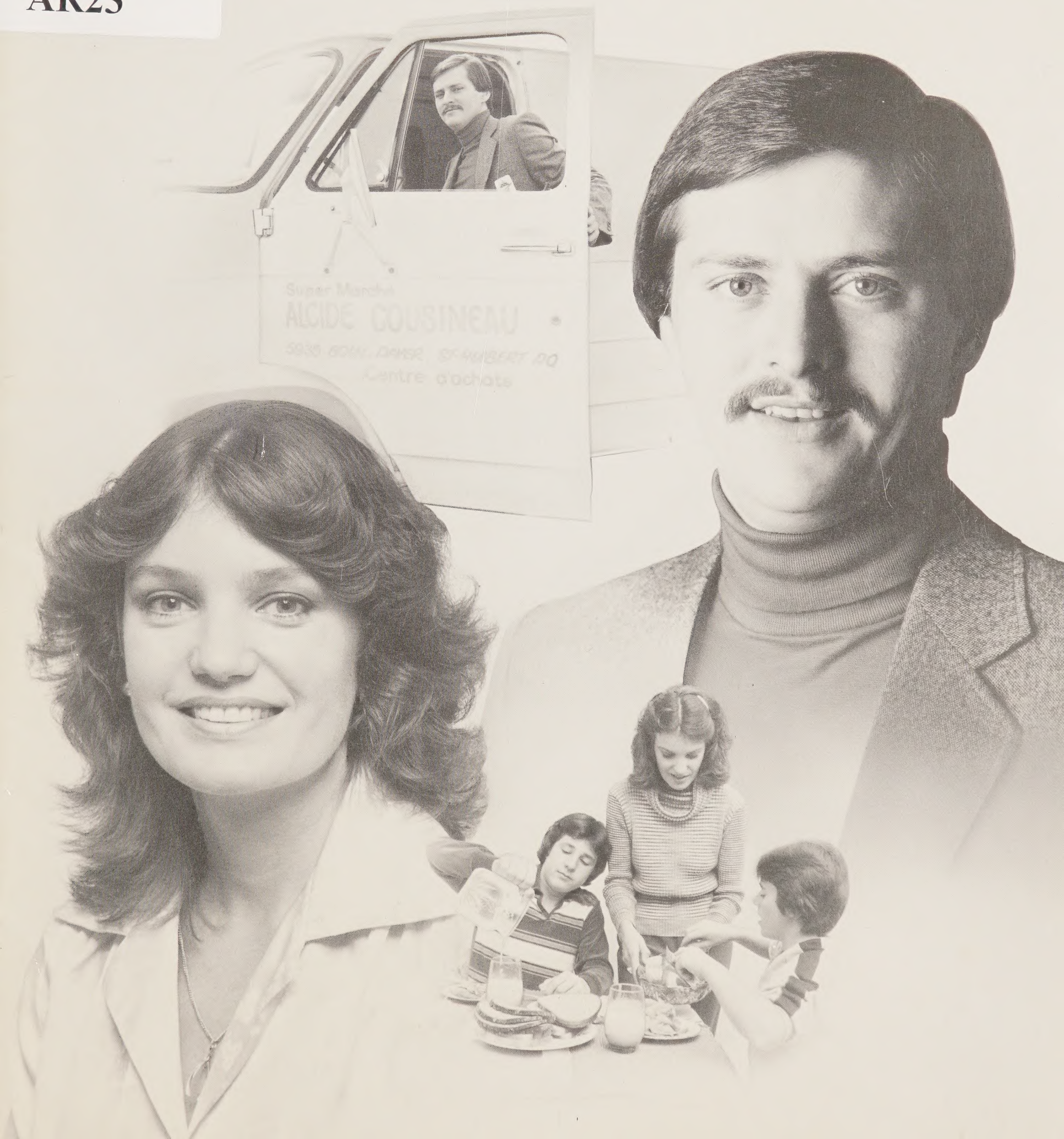
Annual report 1980

London Life Insurance Company

London Life



WHERE EVERY LIFE IS SOMETHING SPECIAL.

On our cover

Back:

Larry Fikowski (left)–part owner of an Alberta oil drilling company; skiing and racquetball enthusiast. Marcel Lavigne–hard-working mechanic; active family man; trophy-winning bowler.

Front:

Christine Marshall–mother of two; school teacher; wildlife painter. Daniel Cousineau–skilled butcher; Montreal groceteria manager, avid gardener.

They're all individuals. They're all London Life policyowners. And they're all featured in the company's current national advertising program which is outlined in this annual report.

London Life

London Life is a life insurance and financial services company providing insurance and other benefits to approximately two million Canadians. Founded in London, Ontario, in 1874, today London Life is one of the largest insurance companies in Canada. In addition to the London head office with a staff of 1,600 people and its sales force of approximately 2,000 representatives, the company maintains a nationwide network of 134 regional offices staffed by almost 800 management and clerical employees.

The company offers a wide range of products and services for individuals at all income levels, and for employees of companies both small and large. London Life's product range has expanded beyond life insurance into health and disability coverage, pensions, registered retirement savings plans and a variety of other vehicles to provide income, conserve assets and accumulate capital.

Each year London Life provides policyowners and their beneficiaries with benefits valued at many millions of dollars. As well as helping Canadians to achieve their individual protection goals, London Life contributes to the economic development of Canada through investments in mortgages, real estate, stocks and bonds. Investment funds help finance the construction of homes, apartments, offices, schools, roads, bridges and other public and private enterprises across the nation. These investment funds, allocated in proportion to London Life's long-term financial obligations in each region of the country, serve a further purpose in helping to create jobs and allow industries to expand to better meet the needs of markets in Canada and abroad.

London Life Insurance Company
Head Office: 255 Dufferin Avenue, London, Canada

Incorporated by special act under the Laws of Canada

Pour recevoir ce rapport annuel en français, il suffit d'en faire la demande.

Facts at a glance

106th Annual Report of London Life Insurance Company
for the year ended December 31, 1980
(millions of dollars except per share information)

	1980	1979	% Change
New life insurance issued	**$ 4,211**	$ 3,837	9.7
Individual policies	**3,005**	2,482	21.1
Group policies	**1,206**	1,355	(11.0)
Life insurance in force	**$33,383**	$30,202	10.5
Individual policies	**21,597**	19,828	8.9
Group policies	**11,786**	10,374	13.6
Increase in insurance in force	**3,181**	2,798	13.7
Premium income	**$ 568**	$ 505	12.5
Life	**343**	319	7.5
Annuity	**99**	81	23.2
Health	**126**	105	19.6
Net investment income	**$ 324**	$ 290	11.4
Benefits to policyowners and beneficiaries	**$ 325**	$ 271	19.9
Dividends to policyowners	**$ 117**	$ 92	27.0
Net income*	**$ 53**	$ 35	53.1
Total assets	**$ 3,860**	$ 3,513	9.9
Rate of return on investments (life branch excluding segregated funds)	**9.11%**	8.84%	
Number of employees	**4,505**	4,547	
Field	**2,084**	2,071	
Office	**2,421**	2,476	
Earnings per share	**$ 46.43**	$ 24.66	
Dividends per share	**$ 8.00**	$ 4.75	

*includes shareholders' portion of net income of $23 ($12 in 1979)

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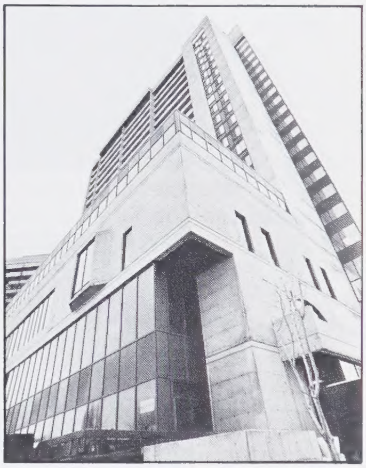

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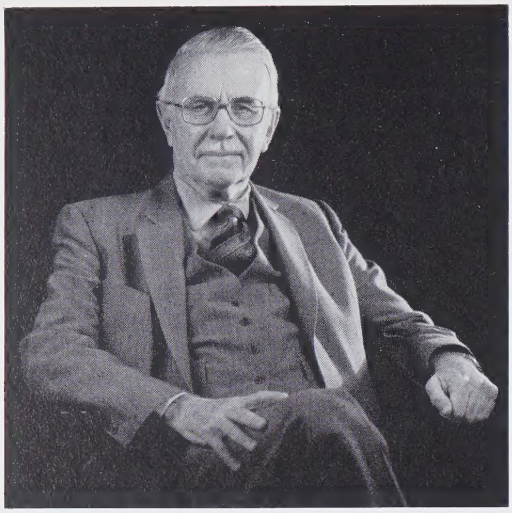
Board of directors report



Joseph Jeffery, Chairman of the Board

Alexander H. Jeffery, Deputy Chairman of the Board

Earl H. Orser, President

London Life dealt positively with the economic uncertainties of 1980, ending the year with record sales and earnings.

The past year was a difficult one for nearly all sectors of business. Canada experienced its worst recession since 1954, and, in company with many other Western nations, battled high unemployment and rapidly climbing inflation.

Predictions of a mini-recession proved to be overly optimistic in the face of further OPEC oil increases, higher food costs and sharp upswings in interest rates. The October federal budget did little to encourage an economic recovery.

We continue to believe that control of inflation must be the highest priority for action by government and business. This has been said so often by so many business and political leaders there is the risk that Canadians will become apathetic about the issue. It is not clear that Canadian government authorities yet believe inflation inhibits real economic growth; perhaps policy leadership by governments in the U.S. and the U.K. will convince Canadians and their governments that some "short term pain" is politically acceptable to achieve greater price stability.

At present the development of strategies and policies to re-establish a satisfactory rate of growth for the country and restore improvements in standards of living for Canadians are being neglected in the political preoccupation with constitutional reform. This controversy, which may be extended for months or years, should be suspended so federal and provincial leaders can deal with the critical problems of economic growth — particularly energy development.

Events of the past two years in combination with the current debate surrounding the National Energy Program have created a situation in which decisions made far from Canada — by OPEC nations — have resulted in a divisive confrontation between political representatives of the people of Canada — a resource rich country. We must demand that the political process accommodate early negotiation and settlement of these issues.

The prime impetus for economic growth in the 1980s rests with the development of Canada's energy resources. The economy will not grow so long as resolution of intergovernment issues is delayed, the mobilization of resources and development financing postponed and the start-up of major energy projects stalled. The nation's resources — including human resources — are under-utilized and the economy is operating well below capacity. We have *waste* and the country is coming no closer to energy self-sufficiency.

As a major company among institutions responsible for Canadians' savings we must protest the delay in both the development of Canada's resources and in the opportunity to support this development by taking part in the huge investment which will be needed.

With respect to the insurance industry and its markets there have been many changes in recent years in individual insurance products and prices. A significant proportion of these changes reflects tax saving opportunities and a high level of interest rates.

Our management's position is that London Life's "competition" is not only insurance companies but also other

savings and investment intermediaries; we are devoting large resources to product development and related marketing initiatives. We must offer Canadians a broad spectrum of competitive products, including savings and accumulation products, so that we profitably expand our business base. It should be noted that it is our policy that one line of business will not be used to subsidize others. The recruiting, training, retraining and expansion of our field sales force is a key element of our strategy.

In group insurance markets there has been severe competition, some from companies new to the group insurance business or new to Canada. There also appear to be companies either "buying" market position or whose data covering escalating costs and regional trends is not as current as our own. Although this has put a heavy burden on our large and competent group field force, our strategy has produced expanding volumes of business with an improving return in 1980.

Securities markets and interest rates have seen unprecedented volatility in the last year. As the company's product mix changes and as different investment circumstances develop we will adapt accordingly, recognizing that the protection of values and the optimizing of returns in an inflationary era are great challenges.

It appears that the report of the Ontario Select Committee on Company Law and other emerging policies may begin a period when the life insurance industry will be given increasing opportunities to substitute self-regulation for some government rule-making and supervision. The industry is certainly capable of working with less regulation and in a position to take on some regulatory tasks. We encourage changes which will stimulate industry competition and sensitivity to consumer needs.

Some of the recommendations of the Select Committee concerning data to be included in point of sale and policy delivery material appear to us to represent "overkill." London Life's record of concern for the interest of our policyowners and prospective clients speaks for itself. We fully endorse the importance of encouraging the buyer of insurance to understand the implications of his purchase — and our system of training and supervision of career sales representatives gives us every confidence in the competence and conduct of those who represent us.

A review of the entire pension field and the funding of both government and private plans will take place at a federal-provincial conference in Ottawa, March 31 to April 2. We anticipate that this National Pensions Conference will have significant implications for the life insurance industry. Our management will be following the developments carefully and we will ensure our point of view is heard through industry organizations and by other means.

During 1980 our existing code of confidentiality concerning personal information and records in the company's possession was reviewed and formally defined in "Right to Privacy Guidelines." A published statement of privacy guidelines was distributed to all London Life personnel and is being mailed to all individual policyowners. The requirements governing the collection and use of information ensure relevancy, accuracy, fairness and completeness. Confidentiality of records is strictly maintained as a matter of professional business practice.

At the company's annual meeting in March, Peter F. Bronfman, J. Trevor Eyton and Patrick J. Keenan were elected to the board of directors. In September Alexander H. Jeffery was appointed deputy chairman of the company and Earl H. Orser was appointed president.

During 1980 and early in 1981 the following executives came to administrative officer positions at London Life from important management assignments in insurance and other enterprises: John. L. Carpenter, vice-president, general sales division; James G. Cross, director of corporate planning; Charles L. Kimball, director, group benefits division; and R. Thomas M. Allan, director of investment planning.

Kevin M. O'Connor, formerly regional manager, Barrie-Orillia, was appointed area director, Hamilton, district sales division. William H. Gleed, former area director, Toronto, resigned to accept a senior position in another insurance company. R. H. Hamill, director of claims, retired after 45 years of service.

In last year's report we described a statement of London Life's mission, philosophy, goals and strategies for the new decade. In 1980 the implementation of these strategies began. The senior management group was further reinforced and commitment to corporate objectives strengthened. Enhancements of planning, control and productivity were significant.

The company's management, field organization and administrative staff showed initiative and dedication in producing a successful year for London Life. We acknowledge their outstanding contribution and record our appreciation for their efforts.

We can say with confidence that London Life is operating from a healthy financial, marketing and organizational framework, well positioned to meet the challenges of the years ahead.

Outlook for 1981

We do not expect that the business and economic conditions of 1981 will significantly differ from those of 1980. Improvement in the real Gross National Product is not likely to exceed 1% while rates of inflation and unemployment will be little changed. In anticipation of this environment, the company's new business objectives have been set moderately higher than for 1980. Because special tax circumstances which benefited 1980 are not likely to recur, the company will do well to equal the year's net income in 1981.

On behalf of the Board of Directors

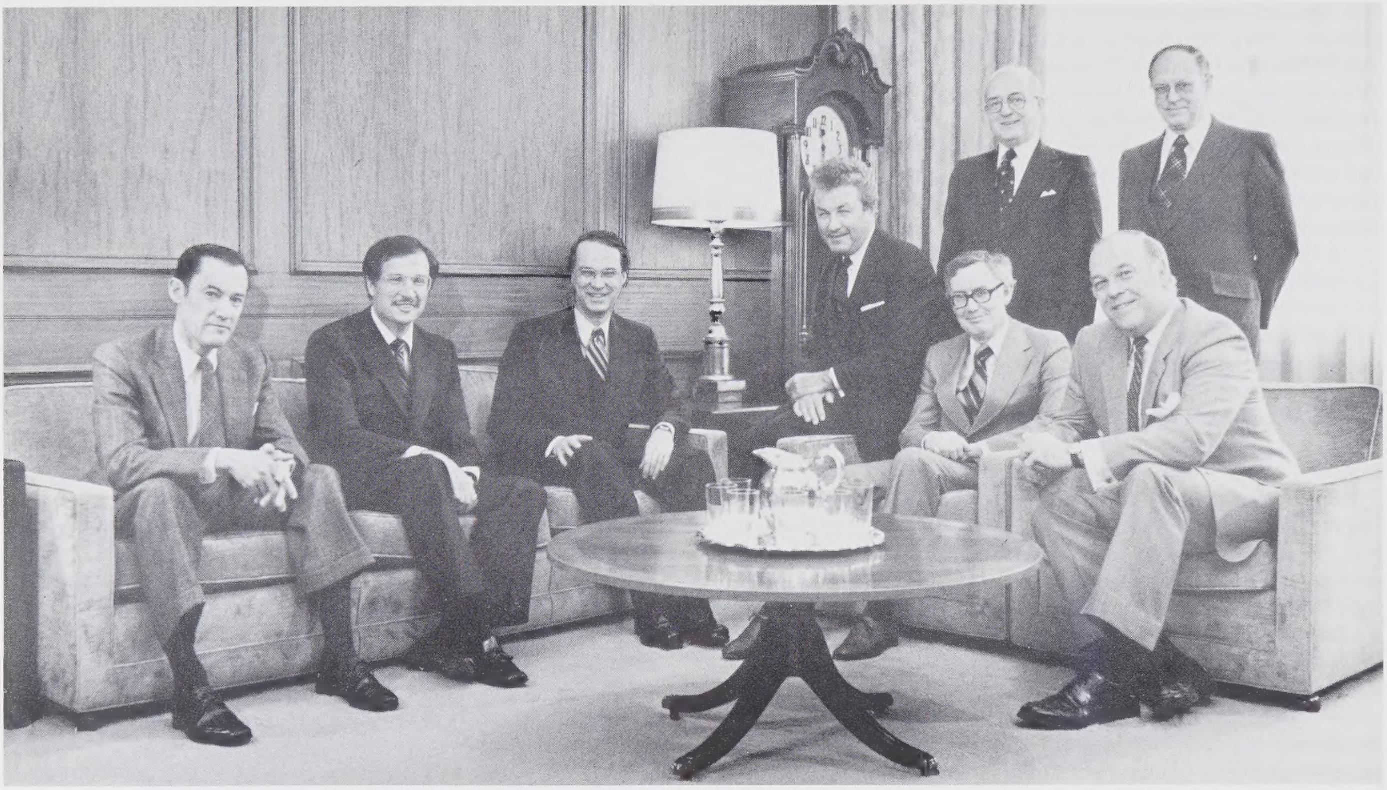
Joseph Jeffery

Joseph Jeffery
Chairman

Earl H. Orser

Earl H. Orser
President

Management report



Members of the Operating Committee: D.S. (Bill) Rudd, Senior Vice-President (seated, left); Robert G. Mepham, Vice-President, Group; Norman D. Epp, Vice-President, Finance; Earl H. Orser, President; L. Blake Fewster, Vice-President and Chief Actuary; Dale E. Creighton, Vice-President, Marketing. Standing, Gordon L. Corneil, Vice-President, Investments (left); William L. Pollard, Vice-President, Administration.

The opening year of the '80s was one of significant achievement.

Life insurance sales exceeded $4.2 billion — a record one-year level, representing a 9.7% increase over 1979. By the end of the year London Life provided Canadians with over $33 billion of life insurance protection.

Dividends to policyowners of $116.7 million and net income of $53.3 million were at record levels. Shareholder earnings were $46.43 per share, up from $24.66 in 1979.

The unfavorable effects of inflation on our business, however, cannot be overstated. Volume of new business in 1980, while substantial, did not increase at a sufficiently high level to keep pace with the rate of inflation. There is hesitation about the purchase of fixed dollar contracts in inflationary circumstances. As well, the economic environment — with its accompanying high interest rates — encouraged an increased level of policy loans and surrenders.

Individual insurance

For the first time, sales of individual insurance surpassed $3 billion — a 21% increase over 1979. We continue to be by far the largest company in individual insurance on the lives of Canadians, with total business in force now exceeding $21 billion of individual protection.

Permanent policies accounted for $1.6 billion of sales in 1980. London Life's proportion of permanent insurance sales, in relation to term, continues to be higher than the industry average. In 1980, permanent insurance amounted to 48% of new business, while in the life insurance industry generally the figure was 36%.

During 1980 participating policyowners received dividends totalling $86 million, the highest amount ever paid in a single year. Even more substantial improvements in the dividend scale for individual insurance for 1981 have been announced. Excellent results in investment returns, expense control and claims experience have made it possible to introduce major dividend increases for two years in succession.

The number of level term policies sold increased 42.8% over the previous year. At the same time, the average amount per new policy grew 11.1%, to $63,414. More competitive term insurance rates announced late in 1979 enhanced the company's position in the growing consumer market for term products.

Repeating the successes of 1977 and 1978, a "special contact" program in the spring of 1980 provided a selected group of policyowners with an opportunity to increase their insurance coverage in an inflationary environment without undergoing the normal medical examination. Insurance valued at almost $170 million was purchased as a direct result of this program.

Premium income on single-premium non-participating annuities showed an $11 million increase over 1979 with the introduction of more competitive rates. We have made significant progress in this area and recognize it as a rapidly growing market with considerable potential.

London Life's record of high business persistency was maintained during 1980 through the combined efforts of administrative and sales staffs. As noted earlier, high interest rates and unsettled economic conditions caused many clients to use their life insurance policies as a source of immediate funds. Policy loans and surrenders tended to coincide with interest rate fluctuations in the first half of the year but remained relatively stable for the balance of the year.

Another successful client contact program carried out during the year resulted in payment arrangements being made on almost 6,000 policy loans, either on an outright cash basis or through a scheduled payment plan. As well as helping to keep existing business in force, this program led to sales of a further $12 million of insurance coverage and some 4,000 referrals to prospective clients were obtained.

Group insurance

Group operations in 1980 continued the improvement evident in 1979 and total premium income was $211.7 million.

Sales of group life insurance during the year totalled $1.2 billion, while the number of new policies issued showed a 7.9% increase over 1979.

The past year saw the company's group health operations restored to a profitable position. A significant factor in establishing better margins for new and existing business has been the adjustment of group health rates on a more frequent basis.

The number of groups we insure with health insurance coverage reached 7,558 at year end, up 4.3% from 1979. Sales of health insurance products were particularly strong in the small group market.

Favorable sales results were achieved in our group pension operations during 1980 — $12 million.

Group insurance markets have been intensely competitive during the past few years, in part, because many companies have been less responsive than we to claims trends and have not adjusted their rates as quickly. London Life's representatives have performed exceptionally well in this demanding business environment. By taking a realistic stance in our group health pricing policies London Life may be one of the few companies within the industry showing reasonable profit in group health operations.

Our group operations now provide a good profit base upon which to build in developing our future group marketing strategy.

Investment highlights

- Invested assets of the life branch rose $308 million to $3.6 billion. The net rate earned in the life branch portfolio was 9.11%, up from 8.84% in 1979.
- Bond purchases in the life branch totalled $299 million at a gross yield of 12.26%. A substantial portion of the 1980 bond purchases was part of a program to adjust the yields and term of the portfolio. Although significant losses were realized from this program the overall effect for 1980 was an improvement in net income because of tax reductions.
- The net increase in investments in preferred and common stocks was $19.5 million.
- Total mortgage loans in the life branch at the end of 1980 reached $2.3 billion. The average gross yield on the mortgage portfolio was 9.77% in 1980 and 9.37% in 1979.
- In the health branch, which covers group health insurance, net invested assets at year end were $137.8 million, an increase of $29 million.
- The average gross yield on new cash investments in the life and health branches was 11.40% in 1980, compared with 8.36% in 1979.
- Cash and short-term deposits at year end totalled $65.4 million.

Policyowner benefits

Benefits provided to policyowners and beneficiaries amounted to $325 million during the past year, up from $271 million in 1979.

As mentioned previously, a record amount in dividends was paid to the owners of participating policies. Annuity and health benefits also rose to record levels, $83 million and $93 million, respectively. In the previous year, annuity benefits were $55 million and health benefits were $82 million.

Our mortality experience for 1980 was within expected levels. The dollar amount of claims grew $3.5 million to $78.2 million. This reflected a larger number of policies in force and a growth in the amount of protection provided.

Cash surrenders during 1980 reached $62 million, up from $51 million in 1979.

Financial results

The company's financial results again showed significant improvement. Income from operations before dividends to policyowners and taxes increased to $189 million from $153 million in 1979. Net income (after policyowner dividends and premium and income taxes) rose 53.1% from $34.8 million in 1979 to $53.3 million in 1980. Earnings per share for 1980 at $46.43 grew 88.3% over the prior year's $24.66.

Premium and investment income increased at a healthy rate, 11.5% in total. This was accompanied by favorable mortality; death claims increased by a modest 4.6%. Amounts provided for policyowners and beneficiaries, together with operating expenses, increased by 8.7%. Given the average inflation rate of 10% for 1980, it is apparent that we continue to control operating expenses effectively.

Net income was increased by approximately $13.7 million

because of a reduction in income taxes which arose from the special bond purchase program mentioned in "Investment highlights." This increased shareholder earnings for 1980 by $7.50 per share.

All lines of business produced improved net income. Performance of the group health insurance business was notable, generating $3.9 million of net income after several years of losses.

Building momentum

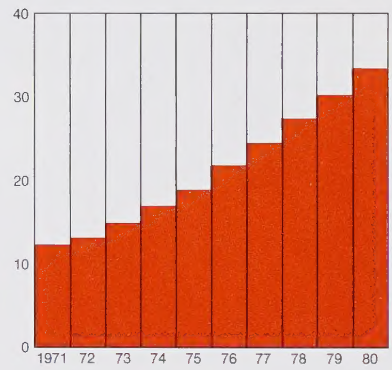
Earlier organizational change along with reinforcement of senior management produced increasing effectiveness during the year. All operating areas of the company carried out clearly defined plans and priorities.

Our continuing emphasis on the importance of marketing functions in the company led to record numbers of sales representatives recruited and trained, an improved pace of product development and the launch of a new advertising program.

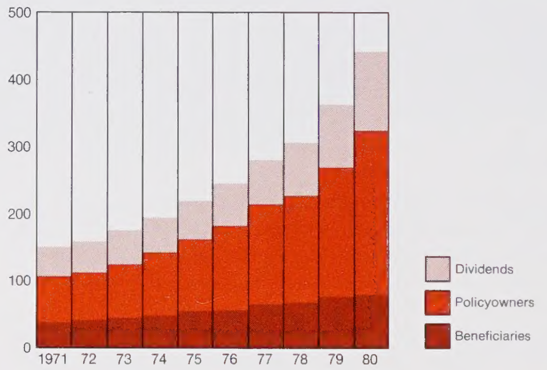
Improved planning and management information systems are now in place, supported by an expanded computer facility and increased systems development resources. In the administrative operations of the company, strong emphasis was placed on productivity improvement for two main reasons: first, more resources can be used in marketing activity; and second, we recognize that cost effectiveness is highly important in determining our competitive position.

The results for the year, as outlined in this report, give us full confidence that we have developed added momentum as we move toward our goal of leadership in the Canadian life insurance industry.

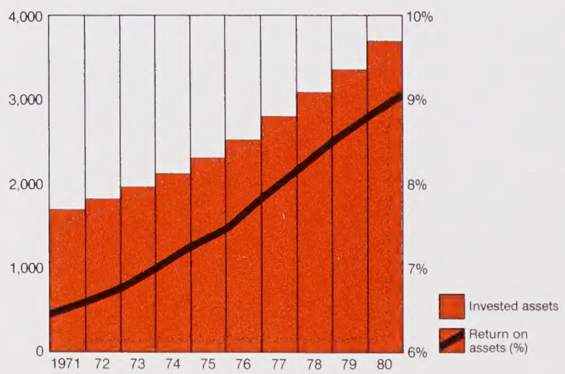
Life Insurance in Force
(billions of dollars)



Benefit Payments
(millions of dollars)



Invested Assets
(millions of dollars)



Marketing activities

In 1980 formal head office training and development programs prepared new marketing representatives for careers to provide Canadian families with guaranteed financial protection.

London Life's commitment to "leadership in the '80s" is strongly evident in the company's progressive marketing operations. The year's achievements are a clear indication of strategies well in process of implementation.

The field marketing organization encompasses three divisions: the district sales division, with 1,500 people serving the broad Canadian consumer market, has been the cornerstone of the company's sales organization since London Life was first founded; the group benefits division specializes in custom-designed employee life, health and pension benefit plans; the general sales division primarily serves clients in the business and professional community.

These divisions, with a total of more than 2,000 individuals, met or exceeded 1980 sales objectives in an environment of double-digit inflation, high unemployment and intense competition.

Further evidence of field force capability is seen in the recognition provided by organizations within the industry. In 1980, 825 London Life representatives received the National Quality Award — a distinction earned for exceptionally high professional standards in marketing life insurance to the satisfaction of consumers. Twenty-three representatives successfully completed an intensive study program in such fields as estate planning, business law and economics, which entitled them to the designation of Chartered Life Underwriter. London Life now has 518 Chartered Life Underwriters, more than any other insurance company in Canada. In addition, 178 representatives qualified for membership in the international Million Dollar Round Table, an achievement shared by only 3% of all life insurance representatives in the world.

Field force growth

Expansion of the field organization was a major priority in 1980. More than 450 sales representatives joined London Life and participated in formal head office training programs. These educational programs are normally preceded by a pre-course study period, and are followed by further extensive in-field guidance from experienced management personnel. The head office training and development courses run from two to eight weeks.

Growth of the field force was also highlighted by an extension of London Life's regional office network. As noted elsewhere in this report, three new sales and service headquarters were opened — one in Vancouver and two in Toronto. The company's strong geographical representation across Canada, concentrated primarily in the country's major metropolitan areas, helps maintain a sound balance of business growth, responsive to regional shifts in economic activity. Establishment of additional regional sales offices is planned, based on a five-year projection of key market areas.

To meet present and future management needs, career representatives are selected to participate in management

development programs. During the past year, 50 experienced men and women of the district and general sales divisions began development programs leading to management positions in sales and marketing administration. A new management training course, called the Field Management Assistant program, was instituted to provide preliminary experience in recruiting and training functions as an initial step toward full management responsibility. Under this program 20 marketing representatives began management development.

Marketing aids

The company's training and education programs for both new and established representatives, long recognized as setting an exceptionally high standard, continued to be refined and improved. Among the introductions to representatives' courses and management programs were audio-visual materials designed to develop interpersonal and management skills.

To keep representatives up-to-date on increasingly complex legislative, financial and tax matters a more intensive program of internal educational materials was developed. Under the masthead *Marketplace*, information bulletins provide a regular monitor of competitive insurance and financial products relating to life insurance and annuities.

Other marketing aids for representatives introduced during 1980 included a tax kit on individual insurance and new, more complete sales support statements. These materials enhance a comprehensive program of publications and newsletters covering current company, industry and legislative topics relevant to representatives and their clients.

Computerized marketing aids to complement the activity of the sales force were also identified and a program of introducing these aids began in 1980 — applications include a small group quotation service, a financial planning service and a prospecting support service. Further aids are scheduled for introduction over the next several years.

Integrated approach

Increased head office support for the company's field force is centred on a marketing concept which coordinates research, product development and pricing, advertising and communications. These functions became more formally integrated in 1979 with an extensive realignment in the marketing organization. During 1980 the effectiveness of this approach was reflected in a continuing program of product development and promotional activities.

Research functions are closely interrelated to new product design, pricing and market planning. A significant development during 1980 established a more comprehensive data base that allows for systematic monitoring of the company's products and the competitive environment. Market research facilities were also employed to test product, promotion and corporate advertising concepts.

New consumer advertising launched in 1980 reinforced marketing strategies geared to target audiences. The campaign theme, "London Life. Where every life is something special," introduced a consumer-oriented program which can be expanded and varied in an ongoing and consistent advertising effort. The campaign presents London Life as a company which provides individual, personalized service to Canadians, a concept long at the core of sales and management development philosophy.

Much of the year's activity in product development focused on an assessment of existing market opportunities, leading to a number of successful developments. A new option enhanced our position in the single premium policy market by providing higher early protection values through dividends. Another development introduced a new dividend illustration showing how a policy can be fully paid up in a relatively short time. A more competitive deposit administration contract for group pension or deferred profit sharing plans was announced in November. In addition to reducing the intitial administration charge, a new scale of fees was introduced based on the complexity of service required by the plan.

A company-wide marketing orientation reinforces London Life's established leadership in its field organization and coast-to-coast service operations.

LONDON LIFE.

WHERE EVERY LIFE IS SOMETHING SPECIAL.

This advertising theme will reach 14.4 million Canadians in a nationwide print and television campaign launched in October 1980. The advertising program opened in English-speaking Canada with London Life policyowners featured in such publications as **Time, Reader's Digest, Maclean's, Chatelaine** and **TV Guide.** Print advertisements also appeared in selected daily French newspapers and the magazine, **Perspectives.** The campaign will continue through 1981; English-language television commercials were introduced in late January and are scheduled to run in planned phases until year end.

The campaign's focus is on London Life policyowners, depicting them in their homes, at work and enjoying recreational activities. This approach demonstrates each person's individuality and reinforces London Life's belief that "every life **is** something special" and every need deserves individual attention.

Investment review

London Life mortgage investments span the country. Above, Parc Samuel Holland, a high-rise apartment complex in Quebec City. Opposite, the Chelsea Inn in downtown Toronto, which reported an occupancy rate of almost 95% during 1980.

Investment activity throughout 1980 was affected primarily by two factors: rising and volatile interest rates and inflationary pressures. Sharp fluctuations in both long and short term interest rates caused special problems in management of fixed income investments.

Activity in the company's securities investments included adjustment of a large portion of the bond portfolio. This program resulted in replacement of older low coupon bonds with more current issues increasing marketability and yield in the process.

In keeping with the favorable tax treatment afforded to dividend income, the net increase in investments in preferred and common stocks was $19.5 million, and at year end the portfolio consisted of $147.7 million in stocks.

Mortgage lending

Mortgages continued to be a productive area of investment in 1980. As in past years, a substantial proportion of policyowner funds was channeled into residential housing. However, with a decline in new housing construction there was an increase in individual mortgages on existing homes. Loans approved in 1980 totalled $309 million and were largely concentrated in five-year mortgages. In the financing of single-family housing London Life is the largest lender among Canadian insurance companies.

Growth in the company's industrial and commercial mortgage lending activity has been marked in the past three years, and continued to account for an increasing proportion of lending activity in 1980. Among the investments approved was a loan on a shopping centre recently completed in Peterborough, Ontario, with London Life participating in future increases in income from 69 retail stores.

On December 31, 1977, industrial and commercial loans of $27.5 million represented only 1.6% of the mortgage portfolio. By December 31, 1980, this had risen to $107.7 million representing 4.66% of the portfolio. Of the $173.6 million increase in the mortgage portfolio during 1980, $31.7 million or over 18% of the increase was in industrial and commercial mortgages.

London Life's high quality mortgage portfolio is maintained through a selective investment policy and careful screening process. All aspects of a proposed development are analyzed with the financial strength of the borrower and prospective tenants being of most importance.

Foreclosure and delinquency rates continue to be far below the industry average — a fact which reflects the company's thorough assessment of mortgage investments and the efficiency of its collection system. Collection results on all mortgage investments were excellent; of 51,149 mortgage accounts under administration repayments of only 64 were 90 days in arrears at year end.

Delta's

Also included in the company's mortgage portfolio: the Nova building, top, foreground, a 16-storey office structure in Edmonton; and Sunshine Woods, a residential development in Delta, British Columbia.

A new office in Saskatoon marks the 18th regional mortgage headquarters in Canada and reflects the company's commitment to an investment program proportionate to policyowner representation across the country. Through 1980, investment activity was strong in British Columbia, Saskatchewan and Alberta; Ontario and Quebec were less prominent than usual although there were indications of a mild upturn in residential construction starts at year end.

Income properties

London Life increased its ownership in income properties during 1980. Early in the year the company purchased Belgal Estates, a 610-suite, five-year-old apartment complex in Hamilton, Ontario. At year end the three high-rise buildings were virtually fully occupied and operating profitably. A half interest was also acquired in a 458-suite apartment complex as a joint venture with a major Canadian developer. Construction of the building was 60% completed at year end. A second joint venture on a 280-suite building is under consideration for 1981.

Toronto College Street Centre Limited, which resulted from the amalgamation of the company's two downtown real estate investments, has two divisions — a development division and Seachel Accommodations. London Life owns 50% of Toronto College Street Centre Limited. The development division involves redevelopment of a 10-1/3 acre downtown block of prime land. The first phase of the development, completed in 1979, includes residential suites, office premises and retail stores. Construction has started on the second phase which includes a one-million-square-foot office tower and residential high-rise buildings.

The Seachel division, which operates the Chelsea Inn, continues to report excellent operations with an occupancy rate of almost 95% during 1980.

London Life's involvement in property development has proved to be a rewarding area of financial operation. New investments in this field will continue to be part of the company's investment strategy.

Client services

An electronic communications network links head office with regional offices across Canada. Responses to client requests can be obtained and relayed almost instantaneously from the head office computer centre.

Two features make London Life's client service distinctive within the Canadian insurance industry — a highly trained field organization of 2,000 full-time representatives and a coast-to-coast network of regional administration offices. A sophisticated telecommunications system of 326 computer terminals in 130 offices helps provide prompt service to some 900,000 households and to more than 50,000 mortgage holders.

Administrative changes

Performance improvement in all areas of client service is a continuing process. A noteworthy development within the past two years has been a shift from a traditional task-related organization to a client-aligned structure. Part of this change has included creation of small customer service units to provide a selected group of clients with a variety of administrative services which in the past involved a number of head office departments. The staff working within these units have achieved higher standards of service through their familiarity with the particular requirements of their client groups. This has resulted not only in improved productivity but also increased job satisfaction.

Customer service units were first introduced in the company's group insurance operations. The concept will be expanded in 1981 to include health claims payments and administration of employer group plans. These service units, organized on a geographical basis, will focus on employer groups of a specific size.

In individual insurance services, two divisions established customer service units during 1980. The staff of these units work with selected regional offices; this allows for more responsive and effective liaison between policyowners, field representatives and head office.

Changing needs and circumstances of a policyowner often require altering the basic policy, and in 1980 over 47,000 changes affecting amounts and plans of insurance were processed. In total, more than 500,000 changes were made to policies and policy records including address changes, beneficiary changes and changes related to premium billings.

Computer capability expanded during 1980 with the installation of an IBM 3033 computer, a high-speed laser printing system and a mass storage system.

During the year there were some 130,000 new applications for insurance. Processing time of these new applications was an aspect of client service given added emphasis: a liberalization of underwriting requirements and streamlining of procedures improved the service turnaround time by three days. Introduction of a test underwriting service unit resulted in more than 60% of the applications processed through the unit being mailed for delivery within a five-day period. The unit currently handles more than 30% of new business. Now serving selected offices in central Canada and the Maritimes, the concept will be considered for expansion in 1981.

Underwriting revisions

A major advantage for clients arising from the company's revision of its underwriting requirements was a 50% reduction in the need for medical examinations. Research data based on long-term experience also lowered the number of unacceptable applications to 1.1%, less than half the Canadian industry average of 3%. This reduction was mainly accounted for by "high-risk" individuals with medical histories of specific heart problems, obesity and high blood pressure, who formerly did not qualify for coverage.

Another significant change — and a further reflection of the company's financial strength — was an increase in the maximum amount of insurance London Life will carry on an individual before reinsuring with another carrier. The retention limit, changed for the first time since 1974, was raised from $750,000 to $2 million.

Daily transactions handled in massive volume are very much a product of London Life's computer capability. Installation of an IBM 3033 computer, a high-speed laser printing system and a mass storage system during 1980 further enhanced an information processing capability that is among the most advanced within the Canadian insurance industry. Information arising from day-to-day operations also provides important data which is analyzed for means of improving not only administration but also products.

During 1980 three new sales and service offices were opened — two in suburban Toronto and one in downtown Vancouver. And, as noted in another section of this report, the Mortgage Department established a regional mortgage headquarters in Saskatoon. This brought the number of regional offices London Life maintains to 134 — the greatest number of any life insurance company in Canada.

Human resources

London Life's primary resource is its people — sales representatives, in daily contact with the public, and the men and women of the head office and regional offices who handle the information and policyowner service which is essential to the company's present and future success.

In head office administrative activity, employee involvement in initiating new procedures to improve productivity and increase job satisfaction is a trend being encouraged and actively fostered. Part of this process in 1980 involved development by managerial and supervisory staff of job definitions, authority limits and skills. The concept goes far beyond a traditional job description; the resulting Position Charter is a documented agreement of results to be achieved.

Restructuring jobs to make better use of individual talents has had a double reward: improved productivity coupled with a greater sense of personal satisfaction. Hand in hand with this has been increased interest among employees in self-development. Training activity within the company accelerated in 1980, as did participation in courses sponsored by industry organizations and academic institutions. A total of 816 employees were enrolled in community college, university and industry accreditation programs such as those conducted by the Life Office Management Association and the Life Underwriters Association of Canada.

Employees are encouraged to upgrade professional and educational skills through a tuition reimbursement plan for successfully completing approved job-related courses. Cash bonuses are also given for suggestions on ways to improve service, reduce costs or increase work effectiveness.

Career opportunities

The company's job posting system continued to provide opportunities for promotions and satisfying careers within the company. Under the system, all employees are aware of position openings up to and including division supervisor in head office, and, in regional offices, office manager. In 1980, a total of 171 head office employees moved into new jobs under this system.

An innovative program undertaken in 1980 put management theory into direct practice. Called the Performance Management program, it focused on specific issues directed toward response to change. Full working groups of managers and subordinates participated in off-site seminars, on the basis that more will be gained if "those who

Formation of task forces has become a problem-solving technique increasingly utilized in administrative operations. Within a specified time limit, the task force defines and analyzes a problem, and recommends actions for implementation of solutions.

work together, learn together." In all, 27 teams took part in the Performance Management program.

Communications within the company was an area singled out for particular attention and steps were taken to improve the internal information network. The administrative staff publication, *Focus,* was redesigned with an editorial policy aimed at promoting a greater exchange of information at all levels. As well, the publication places significantly greater emphasis on company operations and industry-related matters. Another publication, *PACE,* established a similar communications direction within the district sales division. An amalgamation of several earlier information vehicles, *PACE* provides marketing representatives with up-to-date coverage of products, business trends and company news. In head office, quarterly meetings between senior executives and managerial and supervisory staff continued a communication effort which began in 1979. The meetings are held to report on company events and results and to explain corporate goals and strategies. This information is conveyed, in turn, to all staff.

London Life has for many years had a practice of communication with policyowners in the official language of their choice. As part of the company's continuing Francization program, and in keeping with the spirit of Quebec's French Language Charter, a formal statement of commitment to the objectives of the Charter in the company's communications with its staff was codified.

Traditional areas of personnel administration — salaries and benefits — also figured in the year's activities; a revised compensation package came into effect January 1, 1981. In addition to merit increases based on individual performance evaluations there were salary increases to keep earnings levels in line with those provided by other employers. More generous life, medical and dental insurance benefits were also introduced.

In employee compensation London Life remains competitive within the industry and the over-all marketplace — a fact which accounts, in part, for an exceptional record of low absenteeism and turnover among office staff.

A feasibility study for redesign of head office space and facilities was conducted in 1980. Changes being introduced are based in part on recommendations of staff, who assisted in the study, and include a computerized telephone system. This consultation with employees will ensure that space reallocations and facilities modernization create a job setting that is both pleasant and conducive to effective work.

London Life's reputation as an equitable, forward-looking employer is a heritage it intends to build upon. Employee participation and influence in the work process now taking place will accelerate in the coming decade, evidence of the company's commitment to providing interesting and challenging employment.

Directors and senior officers

Joseph Jeffery
O.B.E., C.D., Q.C., LL.D.
Chairman of the Board

Alexander H. Jeffery, Q.C.
Deputy Chairman of the Board

John H. Moore, LL.D.
Chairman of the Executive Committee

Earl H. Orser
President

Peter F. Bronfman
Chairman
Edper Investments Ltd.

John B. Cronyn
Corporate Director and Consultant
John Labatt Ltd.

J. Trevor Eyton, Q.C.
President and Chief Executive Officer
Brascan Limited

H. Clifford Hatch
Chairman and Chief Executive Officer
Hiram Walker-Gooderham and Worts Limited

Gordon D. Jeffery
Barrister and Solicitor

Patrick J. Keenan
President, Chief Executive Officer
Patino, N.V

Allen T. Lambert, O.C.
Director of Various Companies

A. J. Little
Director of Various Companies

Donald Smith
President
Ellis-Don Limited

J. Allyn Taylor, O.C.
Honorary Chairman
Canada Trust

John J. Wettlaufer, LL.D.
Professor
School of Business Administration
The University of Western Ontario

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A. H. Jeffery, Vice-Chairman
J. T. Eyton
Joseph Jeffery
A. T. Lambert
A. J. Little
E. H. Orser
J. A. Taylor

AUDIT COMMITTEE

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H. C. Hatch
P. J. Keenan

INVESTMENT COMMITTEE

Joseph Jeffery, Chairman
A. H. Jeffery, Vice-Chairman
J. H. Moore
E. H. Orser
J. A. Taylor

MANAGEMENT DEVELOPMENT AND COMPENSATION COMMITTEE

J. A. Taylor, Chairman
P. F. Bronfman
A. T. Lambert
D. J. Smith
J. J. Wettlaufer

Office of the Chairman

Joseph Jeffery,
O.B.E., C.D., Q.C., LL.D.
Chairman of the Board

Alexander H. Jeffery, Q.C.
Deputy Chairman of the Board

Earl H. Orser
President

Operating Committee

Vice-Presidents, chaired by President

Vice-Presidents

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Senior Vice-President

G. L. Corneil
Vice-President, Investments

D. E. Creighton
Vice-President, Marketing

N. D. Epp
Vice-President, Finance

L. B. Fewster
Vice-President and Chief Actuary

R. G. Mepham
Vice-President, Group

W. L. Pollard
Vice-President, Administration

Administrative Officers

ACTUARIAL AND UNDERWRITING

J. E. Jeffery, Director, Actuarial Operations
J. C. McKibbon, Corporate Actuary
L. B. Sherwin, Director, Underwriting
I. R. Taylor, Actuary
J. S. Winder, M.D., Medical Director
J. B. Walker, M.D., Associate Medical Director

ADMINISTRATION

H. M. Ballantyne, Secretary
D. A. Bratton, Director, Human Resources
N. J. England, M.D., Staff Health Physician
S. P. Geddes, Director, Individual Insurance Services
R. L. Low, Director, Regional Office Services
W. A. McCoy, Manager, Policy Service

CORPORATE PLANNING

J. G. Cross, Director, Corporate Planning

FINANCE

J. S. Andrachuk, Comptroller
I. P. Brady, Director, Data Processing
J. C. A. Macdonald, Director, Taxation and Cash Management

GROUP

R. E. Brown, Director, Group Insurance Administration
J. A. Mereu, Group Actuary

INVESTMENTS

R. D. Abercromby, Director, Mortgages
R. T. M. Allan, Director, Investment Planning
G. A. Gloin, Director, Securities

MARKETING

J. T. Morgan, Director, Marketing
T. Orr, Director, Consumer Affairs and Administration
J. B. Chick, Manager, Communication Services

DISTRICT SALES DIVISION

A. E. Bennett, Director, District Sales Division
B. R. Smith, Associate Director, District Sales Division
D. C. Anderson, Area Director, Halifax
C. G. Chenier, Area Director, Montreal
D. Goulden, Area Director, Vancouver
D. MacDonald, Area Director, Winnipeg
K. M. O'Connor, Area Director, Hamilton
R. L. Reid, Area Director, Toronto
R. M. Smith, Area Director, London

GENERAL SALES DIVISION

J. L. Carpenter, Vice-President, General Sales Division
D. K. Shales, Director, General Sales Division
N. N. Ayoub, Area Director, Eastern
J. A. Fowler, Area Director, Central

GROUP BENEFITS DIVISION

C. L. Kimball, Director, Group Benefits Division

Regional offices

London Life maintains a network of 134 offices across the nation. These offices provide service for both individual and group insurance, and for the administration of London Life's extensive mortgage operations. In both Edmonton and Montreal there is one office which handles group insurance claims exclusively.

British Columbia
Burnaby
Nanaimo
Surrey
Vancouver (7 offices)
Victoria

Alberta
Calgary (6 offices)
Edmonton (5 offices)
Lethbridge
Medicine Hat

Saskatchewan
Moose Jaw
Regina
Saskatoon

Manitoba
Winnipeg (6 offices)

Ontario
Barrie
Belleville
Brampton (2 offices)
Brantford
Brockville
Burlington
Cambridge
Chatham
Cornwall
Guelph
Hamilton (5 offices)
Kingston (2 offices)
Kirkland Lake
Kitchener (2 offices)
London (5 offices)
Niagara Falls
North Bay
Orillia
Oshawa (2 offices)
Ottawa (4 offices)
Peterborough
Pickering
St. Catharines (3 offices)
St. Thomas
Sarnia
Sault Ste. Marie
Stratford
Sudbury
Thunder Bay
Timmins
Toronto (20 offices)
Welland
Windsor (2 offices)
Woodstock

Quebec
Montreal (18 offices)
Rouyn-Noranda
Sherbrooke
St. Hyacinthe
Val d'Or

New Brunswick
Moncton (2 offices)
Saint John

Nova Scotia
Cape Breton
Dartmouth
Halifax (3 offices)

Responsibility for financial statements

Management, board of directors and audit committee

The accompanying consolidated financial statements were prepared by management using accounting policies prescribed or permitted by the Department of Insurance of Canada. Some of the assets and liabilities include amounts which are based on estimates and judgments as their final determination is dependent upon subsequent events. These estimates and judgments were based on information available up to February 2, 1981, the date the accompanying consolidated financial statements were approved by the Operating Committee. It is the opinion of management that the accounting policies utilized are appropriate in the circumstances and properly reflect the financial position, results of operations and changes in financial position of the Company within reasonable limits of materiality.

The Board of Directors is assisted in its responsibilities for the accompanying consolidated financial statements through its Audit Committee. The Audit Committee was established by the Board of Directors in 1978 and consists of four directors not involved in the daily operations of the Company; two representing the policyowners, two representing the shareholders. The function of this committee is to:

- Review all formal financial statements and recommend them for approval by the Board of Directors.
- Review the systems of internal control and security.
- Recommend the appointment of the external auditors and their fee arrangements to the Board of Directors.
- Review other accounting, financial and security matters as required.

In carrying out the above responsibilities this committee meets regularly with management and both the Company's external and internal auditors to approve the scope and timing of their respective audits and to review their findings and to satisfy itself that their responsibilities have been properly discharged.

The consolidated financial statements were reviewed by the Audit Committee and submitted by them with their recommendations to the Board of Directors for submission to the Annual Meeting.

Valuation actuary

The Valuation Actuary is appointed by the Board of Directors pursuant to Section 71.1 of the Canadian and British Insurance Companies Act. His function is to carry out an annual valuation of the Company's actuarial liabilities in accordance with the Recommendations for Insurance Company Financial Reporting of the Canadian Institute of Actuaries for the purpose of issuing reports to the external auditors, directors, policyowners, shareholders and Superintendent of Insurance. These reports express his opinion based on an informed judgment that:

- Good and sufficient provision has been made for all the obligations guaranteed under the terms of the policies in force.
- The assumptions for interest, mortality, morbidity and other contingencies are appropriate to the circumstances of the Company and the policies in force and are applied on consistent bases.
- The method used to calculate policy reserves produces a reserve in respect of each life insurance policy that is not less than the reserve produced by the use of methods as prescribed by statute.

External auditors

Clarkson Gordon have been appointed external auditors pursuant to Section 78.1 of the Canadian and British Insurance Companies Act to report to the policyowners, shareholders and directors and to the Superintendent of Insurance regarding the fairness of presentation of the Company's financial position and results of operations as shown in the annual financial statements.

Their opinion is based upon an examination conducted in accordance with generally accepted auditing standards. The examination includes obtaining an understanding of the Company's accounting systems and procedures and internal controls. They are permitted, by statute, to rely on any reserve included in the financial statements in respect of which the Company's Valuation Actuary has given an opinion.

The external auditors make appropriate tests of the Company's transactions and obtain sufficient audit evidence in the circumstances, based on their evaluation of the systems of internal control, to provide reasonable assurance that the financial statements are presented fairly and on a consistent basis. However, it is neither practical nor necessary for them to examine all of the Company's transactions.

Consolidated balance sheet

As at December 31
(thousands of dollars)

Assets	**1980**	1979
The Company has the following assets to meet its obligations to policyowners:		
Bonds and debentures	**$ 801,817**	$ 773,555
Stocks	**147,714**	128,241
First mortgages	**2,329,788**	2,158,506
Real estate:		
Income-producing properties At cost less accumulated depreciation of $5,764 ($5,420 in 1979).	**25,126**	6,495
Head office premises At cost less accumulated depreciation of $10,317 ($9,917 in 1979).	**14,650**	14,704
Loans on policies These loans are fully secured by the cash value of the policies on which the respective loans are made.	**275,291**	233,412
Cash and short term deposits	**65,352**	9,606
Accrued investment income	**41,679**	38,511
Furniture, equipment and leasehold improvements At cost less accumulated depreciation and amortization of $10,008 ($14,219 in 1979).	**7,289**	4,751
Premiums in course of collection	**18,983**	17,269
Other assets	**10,984**	7,135
Segregated funds' investments For group pension and individual equity contracts.	**121,458**	120,883
Total assets	**$3,860,131**	$3,513,068

(The attached "Notes to consolidated financial statements" are an integral part of this statement)

Liabilities, capital stock and retained earnings	1980	1979
The liabilities which the Company has assumed are:		
Policy reserves (note 2)	**$2,343,780**	$2,171,952
This amount together with segregated funds' policy reserves, future premiums and interest earnings provides for the payment of benefits promised on all policies in force.		
Other obligations to policyowners:		
Dividends due and left by policyowners to accumulate	**429,058**	379,469
Proceeds of policies left on deposit for policyowners and beneficiaries	**15,122**	14,671
Provision for dividends payable to policyowners	**114,473**	92,744
Provision for unpaid and unreported claims	**37,996**	35,185
Premiums paid in advance	**10,325**	8,236
Staff pension and insurance reserves (note 3)	**273,571**	248,909
Prepaid taxes on mortgage accounts	**19,840**	19,744
Current taxes	**6,795**	5,074
Future income taxes	**19,314**	11,846
Other liabilities	**37,504**	22,774
Segregated funds' policy reserves and other liabilities	**121,458**	120,883
Total liabilities	**$3,429,236**	$3,131,487
The capital stock and retained earnings provide additional security for policyowners and their beneficiaries:		
Capital stock:		
Authorized, issued and fully paid — 500,000 shares of $2 par value	**$ 1,000**	$ 1,000
Retained earnings:		
Appropriated (note 4)	**$ 70,431**	$ 59,076
Unappropriated	**$ 359,464**	$ 321,505
Total capital stock and retained earnings	**$ 430,895**	$ 381,581
Total liabilities, capital stock and retained earnings	**$3,860,131**	$3,513,068

Consolidated statement of retained earnings

For year ended December 31, 1980
(thousands of dollars)

	Life branch Participating	Life branch Non-participating	Health branch	Shareholders' account	**Total**
Appropriated (note 4)					
Balance, January 1	$ 38,898	$ 11,253	$ 8,925		**$ 59,076**
Increase in investment reserves	$ 8,991	$ 2,988	$ 2,364		**$ 14,343**
Increase in other asset valuation reserves	460	230	113		**803**
Decrease in contingency reserves	(2,960)	(831)			**(3,791)**
	$ 6,491	$ 2,387	$ 2,477		**$ 11,355**
Balance, December 31	$ 45,389	$ 13,640	$11,402		**$ 70,431**
Unappropriated					
Balance, January 1	$227,313	$ 89,994	$ 507	$3,691	**$321,505**
Net income	33,736	15,476	3,882	220	**53,314**
Shareholders' portion of life branch participating distribution	(2,864)			2,864	
Appropriations (see above)	(6,491)	(2,387)	(2,477)		**(11,355)**
Dividends to shareholders				(4,000)	**(4,000)**
Balance, December 31	$251,694	$103,083	$ 1,912	$2,775	**$359,464**

(The attached "Notes to consolidated financial statements" are an integral part of this statement)

Consolidated statement of income

For year ended December 31
(thousands of dollars except earnings per share)

	1980	1979
Income:		
Premiums (note 5)	**$568,388**	$505,032
Investment income less investment expenses of $12,544 ($11,695 in 1979)	**323,517**	290,459
Income of subsidiary companies	**387**	4,531
	$892,292	$800,022
Distribution:		
For policyowners and beneficiaries —		
Benefits under life insurance policies:		
Death	**$ 78,170**	$ 74,704
Disability	**2,079**	1,683
Matured endowments	**6,709**	6,844
Cash surrenders	**62,011**	51,055
Annuity benefits	**82,836**	54,828
Health insurance benefits	**92,724**	81,548
Interest on amounts on deposit and other liabilities	**38,776**	32,542
Additions to policy reserves	**171,828**	160,025
Additions to staff pension and insurance reserves	**24,662**	25,053
Additions to segregated funds' policy reserves	**398**	21,354
For operating expenses —		
New insurance and field service to policyowners	**72,842**	69,493
Head and regional offices	**69,865**	63,240
Expenses of subsidiary companies	**359**	4,621
	$703,259	$646,990
Income from operations before dividends to policyowners and taxes	**$189,033**	$153,032
Dividends to policyowners	**$116,679**	$ 91,883
Premium taxes	**7,328**	7,048
Income taxes — current	**4,244**	15,793
— future	**7,468**	3,488
	$135,719	$118,212
Net income	**$ 53,314**	$ 34,820
Analysis of income:		
Life branch participating	**$ 33,736**	$ 25,374
Life branch non-participating	**15,476**	9,572
Health branch	**3,882**	(316)
Investment income on shareholders' account	**220**	190
Net income	**$ 53,314**	$ 34,820
Earnings per share (note 6)	**$ 46.43**	$ 24.66

(The attached "Notes to consolidated financial statements" are an integral part of this statement)

Consolidated statement of changes in financial position (excluding segregated funds)

For year ended December 31
(thousands of dollars)

	1980	1979
Sources of cash:		
Operations —		
Net income	**$ 53,314**	$ 34,820
Charges (credits) not affecting cash		
Additions to policy reserves	**171,828**	160,025
Additions to staff pension and insurance reserves	**24,662**	25,053
Increase in provision for unpaid and unreported claims	**2,811**	505
Increase in provision for dividends payable to policyowners	**21,729**	14,631
Amortization of realized and unrealized net gains on stocks	**(2,483)**	(1,904)
Amortization of realized net losses on bonds	**3,098**	1,394
Amortization of bond premium and discount	**(280)**	(149)
Increase in accrued investment income	**(3,168)**	(2,883)
Increase (decrease) in current taxes payable	**1,721**	(8,874)
Increase in future taxes	**7,468**	3,488
Increase in accrued operating expenses	**5,099**	38
Depreciation and amortization	**1,891**	2,591
Other	**1,545**	345
Total from operations	**$289,235**	$229,080
Increase in dividends due and left by policyowners to accumulate	**49,589**	40,012
Sale and maturity of bonds and debentures	**290,053**	109,894
Sale of stocks	**3,262**	15,673
Repayment of mortgages	**160,246**	160,134
Sale of real estate	**472**	326
Repayment of policy loans	**57,098**	49,197
Miscellaneous	**6,092**	1,786
	$856,047	$606,102
Applications of cash:		
Purchase of bonds and debentures	**$321,133**	$ 58,887
Purchase of stocks	**20,252**	79,044
Advances on mortgages	**331,525**	397,010
Purchase of real estate	**19,793**	875
Advances on policy loans	**98,977**	79,083
Additions to furniture, fixtures and leasehold improvements	**4,621**	1,327
Shareholders' dividends	**4,000**	2,375
	$800,301	$618,601
Increase (Decrease) in cash and short term deposits	**$ 55,746**	$ (12,499)
Cash and short term deposits, beginning of year	**9,606**	22,105
Cash and short term deposits, end of year	**$ 65,352**	$ 9,606

(The attached "Notes to consolidated financial statements" are an integral part of this statement)

1. Summary of accounting policies

The accompanying consolidated financial statements have been prepared using accounting policies prescribed or permitted by the Department of Insurance of Canada. A summary of the significant policies is set out below.

Basis of consolidation —
The consolidated financial statements combine the life and health insurance branches and include all wholly owned subsidiary companies. The revenues and expenses of these subsidiary companies are shown as separate items in the consolidated statement of income. SDI Associates Limited and its wholly owned subsidiary, LONSDALE Systems Limited, were sold on August 8, 1979 and their operations are consolidated to the date of sale.

Basis of accounting for non-consolidated long-term investments —
The Company has equity investments in several Canadian real estate companies.
These investments are accounted for on the equity method as prescribed by the Department of Insurance of Canada. Under this method, the investments are carried at cost plus the Company's proportionate share of undistributed earnings since acquisition. The Company's proportionate share of net income during 1980 is included in investment income.

Asset valuation —

- Bonds and debentures in the life branch are shown at amortized cost minus or plus the balance of unamortized gains or losses on the disposal of such securities. The differences between the proceeds on disposal of the securities and their amortized costs are considered to be an adjustment of future portfolio yield and are amortized on a straight-line basis from the date of disposal to the date of maturity, or 20 years, whichever is less, as prescribed by statute. The balance of unamortized net losses added as at December 31, 1980 amounted to $78,813,000 ($5,662,000 in 1979). Gains and losses on the disposal of bonds and debentures in the health branch are recognized as realized.
- Stocks are shown at cost minus or plus an adjustment, as prescribed by statute, for realized and unrealized gains and losses. The net gains deducted as at December 31, 1980 amounted to $4,145,000 ($6,720,000 in 1979) and reflects the portion of the realized and unrealized net gains that will be taken into income in future years.
- Mortgages are valued at amortized cost less principal repayments.
- Real estate is shown at cost less accumulated depreciation.
- Loans on policies are shown at their unpaid balances and are fully secured by the cash surrender values of the policies on which the respective loans are made.
- Furniture, equipment and leasehold improvements are valued at cost less accumulated depreciation and amortization.
- Segregated funds' investments are valued at market.

Depreciation and amortization —

- Income-producing properties are depreciated on a sinking-fund basis at rates based on the terms of the respective leases, or the estimated useful life of the property, whichever is appropriate.
- Head office premises are depreciated at various rates on a straight-line basis over their estimated useful lives.
- Electronic data processing equipment and furniture and fixtures are depreciated at various rates on a straight-line basis over their estimated useful lives.
- Leasehold improvements are amortized on a straight-line basis over the terms of the respective leases.

Policy reserves —
Policy reserves represent the amount determined by the Valuation Actuary which, together with future premiums and interest, will provide for future benefits on insurance and annuity contracts. Policy reserves are equal to the minimum reserves required by statute recognizing a deduction for deferred acquisition costs. The reserves together with the provision for dividends payable to policyowners are not less than the cash value of the respective policies. The interest, mortality, morbidity and other assumptions used in the reserve calculations are appropriate to the circumstances of the Company and the policies in force. The deferred acquisition costs are amortized over all or part of the premium period of the policy within the limits prescribed by statute.

Income taxes —
Income taxes are provided using the tax allocation method. Under this method, income taxes are provided on the basis of financial statement income rather than on taxable income. Accordingly, future income taxes are provided in the Company's accounts in respect of those elements of income and expense that are recognized for financial reporting and income tax purposes in different accounting periods.

The provision for future income taxes reflected in the attached consolidated statements of income have been calculated by using the accrual method on a discounted basis. Under this method, the balance of future income taxes at the end of each year is determined by applying that year's effective income tax rate to the identified timing differences, and discounting the resulting amount to present value by using an appropriate interest factor and taking into consideration the period and manner in which such timing differences are expected to reverse. Changes in the future income tax balances, arising due to changes in the interest rate assumptions or effective income tax rates, are included in income in the year in which such changes occur.

Distribution of net income —
Distribution of net income to the participating policyowners and shareholders is determined by the Board of Directors. The earnings available to shareholders include those of the health branch, life branch non-participating accounts, investment earnings credited to the shareholders' account and a portion of the life branch participating accounts. The amount available for transfer to the shareholders' account from the life branch participating accounts is limited by statute to a maximum of 2½% of the earnings of the participating accounts distributed to the policyowners and shareholders.

Appropriated retained earnings —
- Investment reserves

The investment reserves represent appropriations to provide for declines in invested asset values. The methods used in determining the amounts are the minimums as prescribed by statute.

- Other asset valuation reserves

Certain assets recorded in the accounts are excluded by the Department of Insurance of Canada in their solvency tests. Because of this, the Company must appropriate retained earnings equal to the respective assets' net book values. These special reserves are shown as other asset valuation reserves and are in respect of the following:

Furniture and fixtures
Leasehold improvements
Agents' debit balances
Premiums in arrears more than 90 days
Other non-admitted assets

- Contingency reserves

These reserves (1979 only) were amounts in excess of those required by statute.

2. Actuarial liabilities

The liabilities certified by the Valuation Actuary consist of the following:

	1980	1979
	thousands	
Policy reserves*	**$2,343,780**	$2,171,952
Provision for dividends payable to policyowners	**114,473**	92,744
Provision for unreported claims	**22,809**	21,354
Staff pension and insurance reserves	**273,571**	248,909
Segregated funds	**121,458**	120,883
	$2,876,091	$2,655,842

*after deducting deferred acquisition costs of $132,530 in 1980 and $128,560 in 1979.

3. Staff pension reserves

Increased pension benefits for employees effective from January 1, 1973 resulted in an unfunded past service liability with respect to the plan to be amortized by special payments over 16 years to 1988. Based on the valuation of the plan performed in 1980, the unfunded past service liability has been reduced to $3,997,000 at December 31, 1980 from $12,002,000 at December 31, 1979. This reduction resulted principally from the utilitization of a special reserve in the plan. Current service costs are expensed as incurred.

4. Appropriated retained earnings

Appropriated retained earnings represent the following reserve amounts:

	1980	1979
	thousands	
Investment reserves	**$64,369**	$50,026
Other asset valuation reserves	**6,062**	5,259
Contingency reserves		3,791
	$70,431	$59,076

5. Premium income

This income was derived as follows:

	1980	1979
	thousands	
Life insurance —		
Participating	**$300,132**	$279,701
Non-participating	**42,200**	38,429
Annuities —		
Participating	**15,073**	15,960
Non-participating	**70,645**	50,370
Settlement	**3,007**	2,750
Health insurance	**123,623**	103,203
Staff funds —		
Life and health	**3,410**	3,338
Pension	**10,298**	11,281
	$568,388	$505,032

6. Earnings per share

The earnings per share of $46.43 ($24.66 as recalculated in 1979) have been calculated on the basis of 500,000 shares and the following earnings attributable to the shareholders.

	1980	1979
	thousands	
Life branch non-participating	**$15,476**	$ 9,572
Health branch	**3,882**	(316)
Shareholders' account	**220**	190
Life branch participating —		
Transferred to shareholders	**2,864**	2,307
Eligible for future transfer to shareholders	**771**	577
	$23,213	$12,330

In 1979 the earnings attributable to shareholders excluded $577,000 representing the portion of the life branch participating earnings that was not transferred to shareholders. Commencing in 1980, the Company has changed the method of calculating earnings per share by including in the earnings attributable to shareholders 2½% of the earnings of the life branch participating accounts before distribution to policyowners and shareholders. The amount eligible for future transfer to shareholders can be transferred only when dividends are paid to participating policyowners.

As a result of this change, earnings per share for 1979 amounted to $24.66 compared to the originally reported amount of $23.51. In all other respects, the calculation of earnings per share in the current year is identical to that followed in prior years.

7. Commitments

The Company has entered into lease agreements for furniture, equipment and regional office facilities for varying periods up to 1990. The approximate future annual payments are as follows:

	Regional Office Space	Equipment	Total
		thousands	
1981	$ 3,624	$1,570	$ 5,194
1982	2,987	643	3,630
1983	2,484	85	2,569
1984	1,969	19	1,988
1985	1,225	13	1,238
1986-1990	2,715		2,715
	$15,004	$2,330	$17,334

8. Comparative amounts

Certain of the 1979 amounts presented for comparative purposes have been reclassified to conform with the presentation adopted in the current year.

10 year review

(in millions of dollars except per share information)

	1980	1979	1978
New life insurance issued	**$ 4,211**	$ 3,837	$ 3,606
Individual policies	**3,005**	2,482	2,473
Group policies	**1,206**	1,355	1,133
Total life insurance in force	**$33,383**	$30,202	$27,404
Individual policies	**21,597**	19,828	18,462
Group policies	**11,786**	10,374	8,942
Premium income	**$ 568**	$ 505	$ 473
Benefits to policyowners and beneficiaries	**$ 325**	$ 271	$ 228
Dividends to policyowners	**$ 117**	$ 92	$ 77
Total assets*	**$ 3,860**	$ 3,513	$ 3,223
Rate of return on investments* (life branch excluding segregated funds)	**9.11%**	8.84%	8.55%
Dividends to shareholders — per share**	**$ 8.00**	$ 4.75	$ 12.64

* As a result of the adoption in 1978 of certain changes in accounting principles, not all of which could be applied retroactively, the amounts shown for 1977 and prior years are not comparable with the amounts shown for 1978, and subsequent years.

** Special dividends were paid in 1978 and 1972 in the amounts of $10.00 and $2.38 per share respectively.

1977	1976	1975	1974	1973	1972	1971
$ 3,290	$ 3,495	$ 2,610	$ 2,208	$ 1,793	$ 1,622	$ 1,405
2,428	2,147	1,922	1,704	1,442	1,255	1,102
862	1,348	688	504	351	367	303
$24,547	$21,862	$18,947	$16,957	$14,996	$13,449	$12,354
16,917	15,241	13,754	12,394	11,163	10,139	9,351
7,630	6,621	5,193	4,563	3,833	3,310	3,003
$ 454	$ 394	$ 351	$ 320	$ 285	$ 246	$ 222
$ 215	$ 183	$ 162	$ 143	$ 125	$ 114	$ 108
$ 66	$ 62	$ 57	$ 52	$ 50	$ 45	$ 42
$ 2,926	$ 2,625	$ 2,392	$ 2,188	$ 2,023	$ 1,869	$ 1,731
8.21%	7.89%	7.51%	7.30%	7.04%	6.81%	6.63%
$ 2.39	$ 2.24	$ 2.20	$ 2.00	$ 1.80	$ 3.98	$ 1.40

Report of the valuation actuary

I have made the valuation of actuarial liabilities as set out in note 2 of the notes to consolidated financial statements, of London Life Insurance Company for its balance sheets at December 31, 1980 and 1979 and its income statements for the years then ended.

In my opinion, the valuations conform to the Recommendations for Insurance Company Financial Reporting of the Canadian Institute of Actuaries, the amounts of the actuarial liabilities make proper provisions for the obligations payable in the future under the Company's policies, and proper charges on account of those liabilities have been made in the income statements, all applied on consistent bases.

L. B. Fewster, F.S.A., F.C.I.A.

London, Canada
February 2, 1981

Auditors' report

To the Policyowners,
Shareholders and Directors of
London Life Insurance Company:

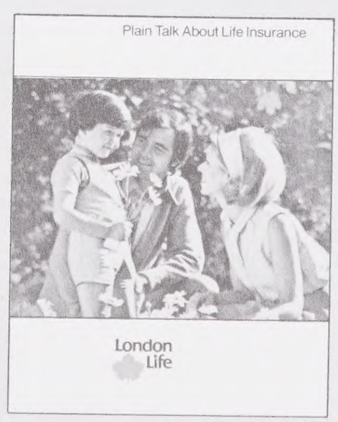
We have examined the consolidated balance sheet of London Life Insurance Company as at December 31, 1980 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances; we have relied on the opinion of the Company's Valuation Actuary as to the amount of the Company's actuarial liabilities as shown in note 2.

In our opinion, based on our examination and the opinion of the Valuation Actuary, these financial statements present fairly the financial position of the Company as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with the accounting principles described in note 1 applied, after giving retroactive effect to the change in the method of calculating earnings per share as explained in note 6 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Clarkson Gordon

Chartered Accountants

London, Canada
February 2, 1981



Plain Talk About Life Insurance is one of several free informational booklets and pamphlets published by London Life. For further details please contact your nearest London Life regional office or the Communication Services Department, 255 Dufferin Avenue, London, Ontario N6A 4K1.